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ZNR UUUUU ZZH  
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FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC PRIORITY 8557  
INFO RUEHOO/CHINA POSTS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC  
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC  
RUEHC/DEPT OF LABOR WASHDC  
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UNCLAS SECTION 01 OF 02 BEIJING 003719

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STATE FOR EAP/CM, INR/B  
TREASURY FOR OASIA/ISA CUSHMAN  
LABOR FOR ILAB  
USDOC FOR ITA/MAC/OCEA MCQUEEN

E.O. 12958: N/A

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SUBJECT: WESTERN CHINA'S ECONOMY CONTINUES TO LAG BEHIND COAST  
DESPITE GAINS -- SHAANXI'S STORY

SUMMARY

1. (SBU) During a May 19-23 visit, officials in Shaanxi Province lamented the relatively slower pace of economic development in Western China. Shaanxi, considered to be China's gateway to the West, has enjoyed rapid growth during the past 10 years, but the province's economy remains far weaker than its coastal counterparts. Government officials in Xian, the provincial capital, hope that a strong university system and a hi-tech development zone, combined with low labor costs, will accelerate growth in the region. Investors in Xian, however, find businesses that are less savvy and infrastructure that is less developed than in coastal cities. END SUMMARY.

WHITE HOUSE FELLOWS VISIT TO CHINA

2. (SBU) A delegation of 12 White House Fellows visited China May 19-26 with stops in Xian and Beijing. The visit covered a wide range of issues but focused primarily on economic development. In Xian, the White House Fellows exchanged views on economic development in Western China with the Vice Governor of Shaanxi Province, researchers at the Shaanxi Academy of Social Sciences, and representatives of the Xian Hi-Tech Industries Development Zone.

PROVINCIAL GOVERNMENT'S VIEWS ON ECONOMIC DEVELOPMENT

3. (SBU) Zhao Zhengyong, Executive Vice Governor of Shaanxi Province, said on May 19 that Western China has enjoyed 10 percent growth per year since the launch of the Great Western Development Program in 1999, but economic development remains slow for historical and geographic reasons. Zhao said that average urban income in Western China amounts to only 70 percent of the national average and rural incomes are at 65 percent of per capita rural income in China. Zhao said he is confident that Shaanxi Province -- the gateway to Western China -- can accelerate development and improve living standards, but he repeated the oft-heard refrain that it will be difficult for the province to catch up to the coast. (Note: See Bio Note on Zhao Zhengyong in para 8. End Note.)

WESTERN CHINA LAGGING BEHIND THE COAST

4. (SBU) Zhang Haoting, a researcher in the Economics Department at the Shaanxi Provincial Academy of Social Sciences, outlined Western

China's problems in terms of the region's lack of resources and slow pace of urbanization and industrialization relative to Coastal China. Zhang said Western China has 71.5 percent of total area but only 28 percent of the population and 16.9 percent of the GDP. Western China produces only 14.8 percent of the nation's industrial output, 13.8 percent of its services, and 25.8 percent of agriculture's contribution to the GDP. According to Zhang, the Central Government's emphasis on rural reform with the launch of the New Socialist Countryside initiative in 2005 is important for Western China as the region aims to raise incomes and improve livelihoods through improved infrastructure and increasing incomes, as well as improved social services.

#### HI-TECH ZONE HOPES TO ACCELERATE DEVELOPMENT IN REGION

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15. (SBU) Given these challenges, XQn's Municipal Government established China's first hi-tech development zone (there now are 53) on three square kilometers of land southwest of the city in 1991. Located within a 12-hour transportation circle of 10 provincial capitals and approximately 600 million potential consumers, the zone hopes to accelerate economic development by attracting outside investors. The Xian Hi-Tech Industries Development Zone (XHTZ) now has expanded to 35 square kilometers and includes more than 8,000 companies and 672 research and development institutes. The XHTZ's annual growth rate exceeds 30 percent per year, and there are more than 40 MNCs operating in the zone, including NEC, ABB, Emerson, Micron, Daikin, Intel, Siemens, Honeywell, Robert Bosch, Brother, and Infineon.

16. (SBU) Investors are attracted to the XHTZ primarily by low labor costs. With more than 900,000 college students in Xian, companies can draw from a constant stream of graduates for all of their human

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resource needs. Even managers and PhDs make less than USD 10,000 per year, and average university graduates earn only USD 3,000 to USD 5,000. Employers take advantage of Xian residents' preference for staying close to home after graduating from university, and as the XHTZ is a government entity, companies rely completely on the Municipal Government to address labor, intellectual property and other concerns, XHTZ-based business leaders said. Reflective of the gap between companies in Western China and their counterparts on the coast, business representatives at the XHTZ said they need a much better understanding of consumers and the market in the region, and they also need to improve standards to meet international accounting practices and to provide better customer service.

COMMENT: LONG WAY TO GO

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17. (SBU) Discussing economic development with interlocutors in Western China and visiting business sites such as the XHTZ provides visitors to China with a much better understanding of the country's challenges than they would have if they only visited Beijing and Shanghai. Despite gains in recent years, Western China remains economically backward when compared to the Coast. Investors may chase lower labor costs further inland, but they will find business representatives who are less savvy than their coastal counterparts and an infrastructure that is less developed. The region's economy still has a long way to go. END COMMENT.

BIO NOTE: ZHAO ZHENGYONG, EXECUTIVE VICE GOVERNOR

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18. (SBU) Zhao Zhengyong was born in 1951 and is a native of Anhui Province where he previously served as Deputy Secretary of the Huangshan City CPC Committee and Director of Anhui's Public Security Bureau. He was named Vice Governor of Shaanxi Province in 2005, and the Central Government will sponsor him to attend Harvard University's John F. Kennedy School of Government for a short-term course later this year. Zhao said his view on leadership is that Chinese leaders need to pay attention to the people's needs. If leaders study hard and understand the local situation, their work will benefit local people, he said. Zhao said he grew up in a worker's home but had an opportunity to go to school (he later

attended the Central Party School), and he experienced first-hand that knowledge can change a person's life. Like many of China's current generation of leaders, Zhao majored in engineering and worked in a factory before becoming a government official in the 1980s. Zhao previously studied in Germany for a short period. END BIO NOTE.

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